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ABSTRACT

This report describes the 1999 legislation affecting Oregon's K-12 school finance system. The first section summarizes state appropriations and local revenue estimates for 1999-01. The second section describes modifications to the allocation of the State School Fund among school districts and Education Service Districts. The last section reports on the progress toward school equity as embodied in the K-12 equalization formula. Voter approval of Measure 5 in 1990 dramatically changed Oregon's school finance system. Measure 5 phased in property tax limits that substantially reduced local property taxes for schools. Consequently, the 1991 Legislature increased state funding and passed a new school distribution formula. By the end of the 5-year tax limit phase-in, the state primarily funded the school system and virtually eliminated local control over school funding levels. Voter approval of Measure 50 during the 1997 Legislative Session continued the shift to state funding. Measure 50 added another property tax limit more restrictive than Measure 5. In response, the 1997 Legislature raised the level of state funding even higher and further modified the school distribution formula. State funding, less than 30 percent of school general operating revenue in 1990-91, increased to about 70 percent in 1998-99. (DFR)

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Research Report

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1999 SCHOOL FINANCE LEGISLATION
Funding and Distribution

INTRODUCTION

This report describes the 1999 legislation affecting Oregon's K-12 school finance system. The first section summarizes state appropriations and local revenue estimates for 1999-01. The second section describes modifications to the allocation of the State School Fund among school districts and Education Service Districts. The last section reports on the progress toward school equity as embodied in the K-12 equalization formula.

Voter approval of Measure 5 in 1990 dramatically changed Oregon's school finance system. Measure 5 phased in property tax limits that substantially reduced local property taxes for schools. Consequently the 1991 Legislature increased state funding and passed a new school distribution formula. By the end of the 5 year tax limit phase-in, the state primarily funded the school system and virtually eliminated local control over school funding levels.

Voter approval of Measure 50 during the 1997 Legislative Session continued the shift to state funding. Measure 50 (a rewrite of Measure 47 passed just prior to the Session) added another property tax limit more restrictive than Measure 5. In response, the 1997 Legislature raised the level of state funding even higher and further modified the school distribution formula. State funding, less than 30% of school general operating revenue in 1990-91, increased to about 70% in 1998-99.

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K-12 AND ESD FUNDING

State School Fund Appropriation

The 1999 Legislature appropriated $4.577 billion to the State School Fund (SSF) for state aid to both K-12 school districts and Education Service Districts (ESDs). The biennial appropriations are in HB 5018, SB 5511, and HB 3575. The table at right summarizes the results of these three bills. About 93% is from the General Fund and 6.5% from lottery funds. The appropriation in 1999-00 grew to replace reduced education lottery bond revenue. The percentage comparison is before adjusting the 1997-99 appropriations for State School Fund dollars not distributed because of a cap on total state and local revenue.

State School Fund Appropriations

	1999-00	2000-01	Biennium
General Fund	$2,093..3	$2,167.3	$4,260.6
Lottery	145.0	150.9	295.9
Private Timber	0	20.5	20.5
Total	2,238.3	2,338.7	4,577.0
Percent Increase	6.5%	4.5%	10.3%

Dollars in millions. Assumes passage of SB1284.

The table assumes HB 1284 (part of the transportation funding package) passes prior to January 1, 2001. If HB 1284 does not take effect, then the State School Fund appropriation decreases $15 million and education lottery bonds increase $15 million.

State School Fund and Local Revenue

The table below shows the combination of the State School Fund and local funding of school operations. Local revenue is still a significant source of funding even with Measure 50. It is about 31% of state and local funding. Local revenue stays in the district where collected, but is treated as a statewide resource for allocation purposes. State and local revenue is distributed to K-12 schools by the school equalization formula and to ESDs by a temporary formula.

State School Fund And Local Revenue

	1999-00	2000-01	Biennium
State School Fund	2,238.3	2,338.7	4,577.0
Local Revenue	991.9	1,031.6	2,023.5
Portland PERS and Desegregation	-19.3	-19.3	-38.6
State and Local Formula Revenue	3,210.9	3,351.0	6,561.9
Percent Increase	7.5%	4.4%	11.7%

Dollars in millions. K-12 includes Youth Corrections Education Program.
Based on close of session local revenue estimates.

Combined State School Fund and local revenue makes up almost all of a school's operating revenue. Statewide, this formula revenue for operations will be

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about 11.7% higher in 1999-01 than in the prior biennium.

Local Revenue

In the State School Fund distribution to K-12 and ESDs, local revenue is mostly property taxes but also includes private timber revenue, Common School Fund, County School Fund and other minor sources. The 1999 Legislature made several changes to local revenue.

Private Timber Revenue

HB 3575 transfers revenue from private timber harvest fees to the State School Fund. This source of local revenue is being phased out. The State School Fund increase compensates for the local revenue decrease.

Common School Fund

The Legislature anticipates that the State Land Board will distribute an additional $50 million to school districts from the Common School Fund. The school equalization formula considers this local revenue.

ESD Timber Revenue

ESD local revenue now includes timber harvest revenue. This applies to both private timber and timber on state managed county lands.

State School Fund Distribution

The State School Fund is distributed into five separate programs. The table on the next page shows the 1999-01 allocations. The distribution of these allocations are described more fully later in this report.

- Education Service Districts (ESD's) are allocated $1.125 million per year for operation of the Oregon Public Education Network (OPEN).
- Education Service Districts receive $178.3 million allocated using a per weighted student formula.
- $400,000 per year is set aside to help pay excess costs of placing special education students in out-of-state schools.
- The Department of Education receives an estimated $1.2 million for special education billings in excess of county school fund resources in 2000-01.
- The balance of the State School Fund is allocated to K-12 school districts. The distribution formula determines a district's combined state and local dollar amount.

Because the K-12 and ESD allocation formulas effectively distribute both state and local funds, the table shows the estimated combined state and local allocations affected by the State School Fund. These combined allocations are based on local revenue estimates as of the close of the 1999 session.

State School Fund And Local Revenue Allocation

	1999-00	2000-01	Biennium
ESD			
Education Service Districts	$148.9	$149.9	$298.8
OR Public Ed. Network (OPEN)	1.1	1.2	2.3
K-12 School			
Disabled Out-of-State Placement	0.4	0.4	0.8
Special Education Billing		1.2	1.2
School Formula Distribution	3,060.5	3,198.3	6,258.8
Formula Percent Increase	7.5%	4.5%	11.6%
Total	3,210.9	3351.0	6,561.9

Dollars in millions; K-12 includes Youth Corrections Education Program.
End of session local revenue estimates.

Revenue Cap

For 1999-01, the Legislature capped the combined allocation from the State School Fund and local revenue based on the close of session estimates. HB 5511 caps total state and local formula revenue for school district operations to $3,060.9 million in 1999-00 and $3,199.9 million in 2000-01 (assumes SB 1284 becomes law). The cap for ESDs is $150 million in 1999-00 and $151.1 million in 2000-01 (including Oregon Public Education Network). If local revenue causes the combined allocation to exceed the cap, the State School Fund amount is reduced to stay within the yearly limits. Any excess State School Fund appropriation is dedicated to pay debt service on education lottery bonds discussed later in this report.

Additional K-12 Funding

The 1999 Legislature also made special allocations to K-12 schools outside the State School Fund. These special allocations were primarily for capital items funded by education lottery bonds and network technology including any telecommunications access funded by SB 622. Although the Legislature makes other categorical grants to schools, these two are included here because they were part of the school funding package adopted by the legislature.

School Lottery Bonds

In HB 2567 the Legislature approved a $112 million bond sale if SB 1284 (part of the transportation funding package) becomes law. If SB 1284 fails, then bond revenue increases $15

Additional K-12 State Funding

	99-00	00-01	Biennium
Education Lottery Bonds	$56.0	$56.0	$112.0
SB622 Technology Funds	25.0	25.0	50.0
Total	81.0	81.0	162.0

Dollars in millions.

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million to $127 million and the State School Fund decreases $15 million.

Bond proceeds are for school capital improvements and technology (HB2567). Bond proceeds will be distributed in 1999-00 and 2000-01. Distribution is based on each school district's share of weighted students (extended) in the current school year. This is about $90 per weighted student in 1999-00.

The funds may be used for instructional training, and the acquisition, construction, improvement, remodeling, maintenance or repair of school buildings. This includes land, site preparation, permanent or portable buildings and equipment, telecommunications equipment, computers, software and related technology, textbooks, library books, furniture and furnishings, vehicles, capital planning costs, revenue bond debt service and reserves for these purposes.

The bond will be repaid from 75% of School Endowment Fund earnings, lottery revenue, and any legislative appropriations. HB 5018 transfers SSF money above the revenue cap to the Lottery Bond Fund to help pay off education lottery bonds.

The Legislature set aside $30.8 million to make debt payments on the 1998-99 $150 million bond and $10.6 million to make payments on the $112 million bond funds for 1999-01.

Technology Funding

The Legislature passed SB 622 dealing with telecommunication carrier regulation. As part of this legislation, carriers who elect to operate under the new regulations pay into a fund of which the first $25 million a year in 2000 and 2001 pays for network technology for schools and ESDs. Revenue available depends on if, when and which telecommunication carriers chose to be regulated by SB 622. Funds are for network access if not already available, recurring connection costs and other equipment. The bill distributes most of the funds on a per weighted student basis but also makes allocations per school site and for specific purposes.

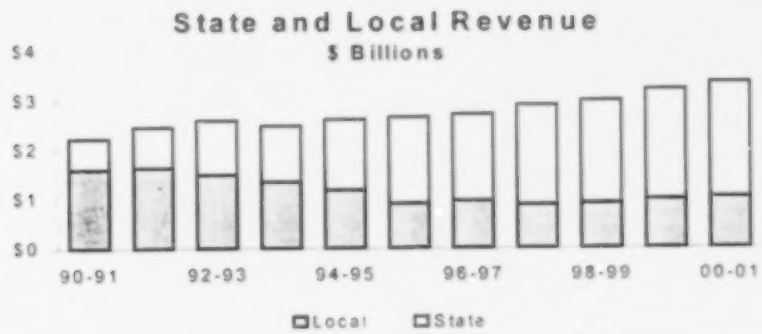
Urban Enhancement

HB 2567 makes a grant to Portland School District of $2 million in each year of the biennium. This is somewhat comparable to the school security funds passed in 1997.

Local Option

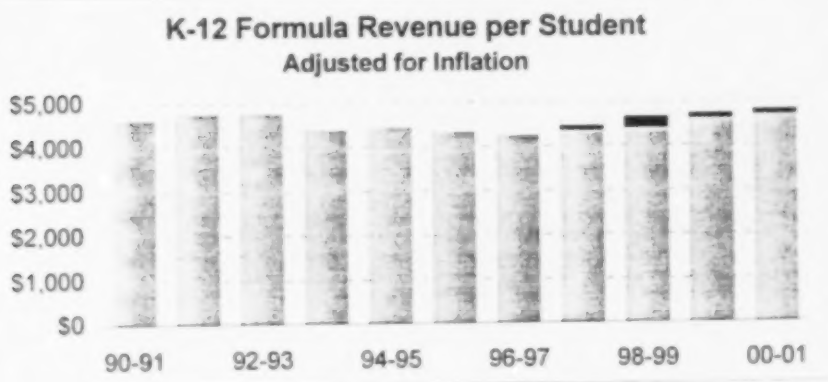
The Legislature allowed a local property option tax for school districts. School districts can ask voters to approve temporary property taxes. The local option tax is excluded from local revenue in the school equalization formula. The tax excluded is equal to the lesser of (1) the amount of the Measure 5 and 50 tax gap collected, (2) 10% of state and local formula revenue or (3) $500 per weighted student. Districts can collect less than the full tax approved by voters. A local option can first be approved for 2000-01.

Recent Funding History



The chart above shows combined state and local formula revenue of schools since Measure 5 passed in 1990. The chart demonstrates how Oregon has moved to a state-funded school system. Before Measure 5, the state provided 30% of local school funding. By 1997-98, it provided 70%. Measure 5 and Measure 50 property tax cuts and a dramatic increase in state school aid accomplished this shift. In 1989-91, 25% of General Fund and lottery expenditures went to K-12 schools and ESDs. In 1999-01, this share will be up to about 43%.

K-12 state funding has increased to make up for lower property taxes and more students, and is now compensating for inflation when compared to 1990-91. As the chart below illustrates, the K-12 formula revenue per student (unweighted) after adjusting for inflation (U.S. CPI) dipped below the 1990-91 level in the mid-90s. Adding the lottery bond funds in 1998-99 brings the inflation adjusted per student amount to about the same level as in 1990-91. In 1999-00 and 2000-01 inflation adjusted revenue per student is expected to rise slightly higher than in 1990-91.



STATE SCHOOL FUND DISTRIBUTION

ESD Distribution

Educational Service Districts receive State School Fund money to help compensate for property tax cuts from Measures 5 and 50. The method of distribution somewhat mimics the phase-in of K-12 equalization.

State School Fund and Local Revenue

The Legislature for the first time specified how much of the State School Fund is for ESDs. The State School Fund amount is $91.1 million in 1999-00 and $89.5 million in 2000-01. This is about 4% of the State School Fund. Before 1998-99 these allocations were made "off the top" to cover a percent of property tax losses.

Local revenue is from three sources. The major source is property taxes collected by the district. Another is revenue from state managed county timber trust land distributed to districts (also known as Chapter 530). The third is revenue from private timber land harvest fees.

Revenue Per Weighted Student

HB 2567 starts to equalize ESD funding. During the 1999-01 biennium, the method is to increase state and local revenue per weighted student for those ESDs below the 1998-99 state average. The bill increases the 1999-00 per weighted student revenue up to the amount listed in the table for these nine ESDs. The other ESDs receive the higher of (1) 1998-99 revenue per weighted student times number of weighted students or (2) 1998-99 state and local revenue. For 2000-01 the distribution is the higher of (1) 1999-00 revenue per weighted student times number of weighted students or (2) 1999-00 district revenue. These distributions are only for the 1999-01 biennium. The Legislature did create an interim task force to examine options for a permanent distribution formula.

Region	ESD	1999-00 Per ADMw
1	Northwest	$150
3	Williamette	$150
4	Linn-Benton-Lincoln	$200
5	Lane	$175
8	Jackson	$225
10	Deschutes	$125
14	Malheur	$165
16	Yamhill	$175
21	Jefferson	$150

Weighted student is extended ADMw

Revenue Cap

The Legislature imposed a cap or upper limit on ESD state and local revenue. SB 5511 sets the cap at $150 million in 1999-00 and $151.1 million in 2000-01 which includes funds for network

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technology. If actual state and local revenue is above the estimate, the upper limit on revenue available becomes the cap amount.

Distribution and Revenue

The formula may allocate more or less revenue than that actually available, but distribution is limited to what is available. If the sum of ESD state and local revenue allocated through the per weighted student formula is more than revenue available under the cap, then each ESD's formula revenue is reduced the same percentage. If this happens, the nine ESDs below the state average will have a reduction in their statutory per weighted student amount. The reverse is also possible. If the sum of ESD formula allocations is less than revenue available under the cap, then each ESD's formula revenue is increased by the same percentage. This assures that all available revenue is distributed and keeps the relative revenue position of each ESD the same.

Network Technology

The $1.125 million per year ESD network technology funds go to the Oregon Public Education Network Steering Committee of the ESD association, not directly to ESD's. The funds are to maintain network operations, develop electronic teaching aids, train network users and maintain a technical center. The state superintendent has to approve any Committee proposal to release the funds.

Interim Task Force

An interim task force on education service district funding is to examine the role of regional services. The task force is to (1) identify services that can be delivered more efficiently on a regional basis, (2) determine the most efficient method for delivering these services, (3) identify the best administrative method to respond to school district needs, and (4) review funding equity proposals such as a formula or service grants.

The Superintendent of Public Instruction chairs the 17 member task force. The task force is to make progress reports and a final report by October 1, 2000 to interim revenue committees. The task force has an appropriation of $150,000 for costs.

K-12 Distribution

The K-12 distribution formula allocates combined state and local operating revenue available to local school districts. Local revenue stays with the district where collected, but is treated like a state resource. The combination of state and local revenue equals a measured financial need. The formula does make a new facility grant, but does not allocate any other capital resources. The formula also does not allocate state and federal categorical aid. These funds are dedicated to specific programs and cannot be used for general purposes.

The K-12 distribution formula allocates funds based largely on a per student basis. For purposes of the formula, "student" means weighted average daily membership (ADMw) extended. Weighting means counting a higher cost student as more than one. Extended means the higher of the current year or prior year ADMw.

The formula generally calculates three grants for each district and gives the district the highest of the three. These grants are the permanent equalization grant, the flat grant, and the stop-loss grant. The permanent equalization grant formula was adopted by the 1991 Legislature and has largely remained unchanged since. The flat and stop-loss grants are temporary constraints on the system designed to ease the transition to the permanent grant formula.

HB 2567 contains most of the 1999 legislation affecting the K-12 distribution.

Permanent Equalization Grant

The 1999 Legislature did not change the structure of the permanent equalization formula for 1999-01. It did, however, modify the new facility grant enacted in 1997 but first taking effect in 1999-00 and change the student weight for many small high schools.

The equalization formula is permanent in the sense that it has no sunset. If the 1997 Legislature had not continued temporary constraints to the equalization grant, the equalization formula would be the sole means of allocating funds to K-12 schools. Before describing the constraints, a brief summary of the permanent equalization formula will be helpful.

The permanent equalization grant for each school district comes from the following formula:

EQUALIZATION GRANT

State School Fund Grant	+ Local Revenue	= Students (ADMw Extended)	X $4500 adjusted by Teacher Experience and to Total Funds	+ 70% Busing Costs	+ 8% New Const. Costs
Formula Operating Revenue		General Purpose Grant		Trans. Grant	New Facility Grant

The total state grant is State School Fund money available for K-12 distribution. Local revenue includes property taxes, private timber revenue, County School Fund, Common School Fund and a few other minor sources. The teacher experience factor increases or decreases the $4,500 per student target by $25 for each year the district average experience is more or less than the statewide average teacher experience. A calculated percentage adjustment factor modifies the adjusted target amount to distribute the full state and local funds available. The transportation grant is a 70% reimbursement of approved transportation costs. The new facility grant is 8% of the construction costs for new classrooms, but is subject to a biennial limit.

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Formula Constraints

Since its inception, the permanent equalization grant was constrained to restrict the amounts a district could lose from one year to the next by setting minimum grants. These constraints have been temporary. The 1997 Legislature continued the same two types of minimum constraints enacted in 1995 – a modified flat grant per student and district stop-loss grant – for four more years ending in 2000-01.

Flat Grant (NoLimit)

The flat grant guarantees a district will receive at least as much combined state and local revenue per student as in 1998-99. This is the same as its 1998-99 general purpose and transportation grants per student because there was no funding for new facility grants in 1998-99. In 2000-01 the guarantee is the same. The total grant includes any new facility grant. The general formula is shown below.

FLAT GRANT

State School Fund Grant	+	Local Revenue	=	1998-99 State School Fund and Local Revenue per Student	X	Students (ADMw)	+	8% New Construction Cost

Stop-Loss Grant (No Limit)

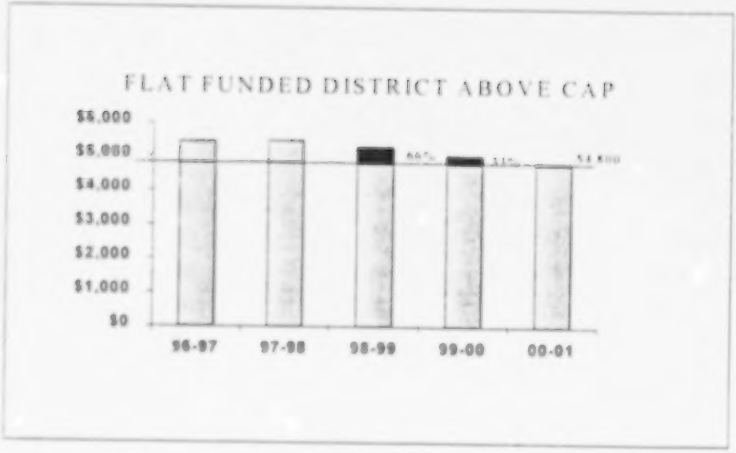
The stop-loss grant guarantees a district will receive at least as much combined state and local revenue as in 1998-99. This applies to both years of the 1999-01 biennium.

STOP-LOSS GRANT

State School Fund Grant	+	Local Revenue	=	1998-99 State School Fund and Local Revenue	+	8% New Construction Costs

Phase-Down of Constraints

The constraints avoid funding cuts in districts that have historically had higher funding levels. However, the 1997 Legislature imposed new limits on the operation of the constraints designed to phase-down very high revenue districts.



The constrained grants phase down if they cause a district's funding level to exceed $4,800 per student. In 1998-99, if a constraint held a district's funding above $4,800 per student, the constraint was reduced by one-third of the excess over $4,800.

In 1999-00, the constraint is reduced by 50% of the excess over $4,800 excluding any new facility grant (two-thirds compared to 1997-98). In 2000-01, a constraint cannot hold a district's funding level above $4,800 per student.

Beginning in 2001-02 the distribution for all districts will be by the permanent equalization formula. There will be no constraints to the equalization formula without new legislation.

Small High School Weight

HB2567 phases in an additional weight for existing small high schools (below 350 student in 4 grades and 267 in 3 grades) in districts with under 8,500 weighted students in 1999-00. Districts continue to qualify for the remote small high school weight. Small high schools less than 10 miles from the nearest high school receive no weight. Those between 10 to 20 miles receive a mileage adjustment less than 100% of the weight. Those over 20 miles receive a full weight.

HB2567 provides additional weighting equal to a percentage of the difference between the weight with and without the mileage adjustment including those below 10 miles. The percentage is 25% in 1999-01, 50% in 2001-03 and 75% in 2003-05.

New Facility Grant

HB 2567 modifies the new State School Fund facility grant. The 1997 Legislature enacted the grant, but did not fund it in 1997-99. The grant is for equipping a facility, not capital construction costs. The 1999 Legislature increased the grant from 6% to 8% of the construction costs of new school buildings excluding land. New buildings include additions and portable classrooms, but exclude buildings not used for some classes such as a central administration building. The grants

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to eligible districts cannot exceed $17.5 million (increased from $10 million) per biennium and are prorated if 8% of eligible costs exceed $17.5 million.

Out-Of-State Disability Placement

HB 2567 continues to allocate $800,000 ($400,000 per year) from the State School Fund to the Out-of-State Disabilities Placement Education Fund. Districts with disabled students in facilities in other states may qualify for grants. These districts can apply for reimbursement for costs in excess of twice the district allocation (excluding transportation) for these students (four times unweighted allocation). If reimbursement claims exceed the amount in the fund, grants are prorated.

Advance Payment

HB 2567 allows Portland School District to request an advance payment in 1999-00 equal to its estimated growth in formula revenue in 2000-01. An advance cannot be made before April 1, 2000. The advance is then subtracted from the 2000-01 allocation. This is a revision of 1997 legislation that made all districts eligible for an advance in 1997-98.

Local Revenue Shortfall

HB 2567 requires shortfalls in K-12 school revenue to be shared by all districts in proportion to their formula revenue at the cap level of funding. If local revenue shortfalls cause total K-12 formula operating revenue to be less than $3,060.9 million in 1999-00 and $3,184.9 million in 2000-01 (SB 5511), the shortfall is allocated to each district in proportion to their cap-funding allocation

Without this method, shortfalls would only affect equalization districts. This is a continuation of 1997 legislative policy.

K-12 EQUITY

By any measure, the state has eliminated most of the differences in school funding that existed before Measure 5. A more precise statement requires a definition of "equity". "Equity" as a measure of fairness does not necessarily mean that all districts get the same funding per student. Districts face different problems and costs that may justify different funding levels. Thus defining equity is to some extent a matter of policy about which reasonable people could disagree.

For purposes of this report, we assume the current permanent equalization formula is the legislatively adopted definition of equity. This means 100% equity would be achieved if the permanent equalization formula operates without constraints. It also means the factors in the permanent equalization formula define "equity". These factors can change over time and will no doubt be periodically reviewed and revised by future legislatures. For example, the additional small high school student weight and higher new facility grant redefined equity beginning in 1999-00. Thus "equity" is an evolving target over time, and this analysis of the movement towards "equity" is one snapshot in a moving picture.

This analysis also excludes education service districts. Since Measure 5 the Legislature has funded ESD's with temporary formulas and has not defined an equity formula for ESD's.

Reduction in Absolute Difference

In 1991-92 the total statewide absolute difference between the actual distribution and the equalization formula was about $303 million. This was about 13.2% of the state and local funds distributed to schools in 1991-92.

In 1999-00 the estimated total absolute difference between the constrained formula and the permanent formula will be about $2.5 million. This is less than 1/10% of state and local revenue distributed in 1999-00. By this measure, over 99% of the "inequity" that existed before Measure 5 has been eliminated. In 2000-01, the final $4,800 per student cap on constraints will virtually achieve equity.

Reliance on Constraints

Student Funding Method		
	1992-93	1999-00
Equalization Formula	71%	98%
Minimum Constraints	29%	2%
	100%	100%
Formula and constraints are different but comparable in these two years.		

Another way to show the progress toward equity is to look at how many districts rely on the constraints for their funding. The table shows the percent of weighted students in districts funded by the equalization formula and by minimum constraints. Changes in the permanent equalization formula explain part of this progress. For example, excluding PERS and desegregation costs from local revenue helped Portland switch from a flat grant to an equalization district in 1997-98.

A Picture of Progress

This graph (page 14) demonstrates the progress toward equity. The graph shows the per student funding level of each district in the state that enrolls over 5,000 students. In 1991-92, the funding level varied from just over $3,000 per student to over $5,000 per student. This is represented by the dashed line labeled "1991-92 Actual".

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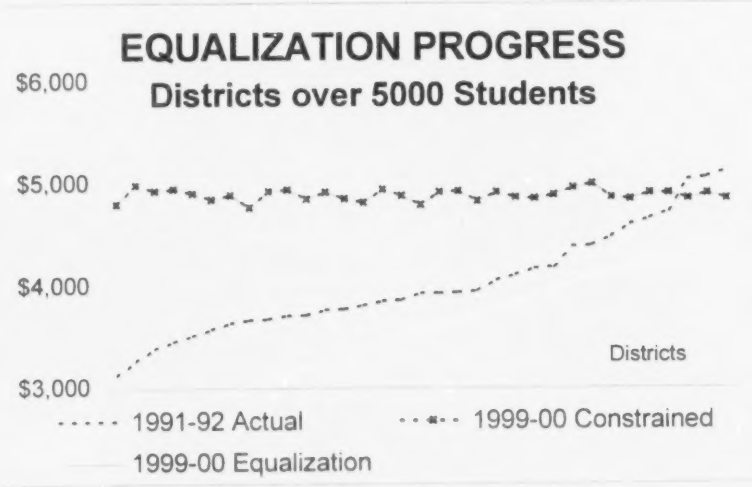
The solid line represents the permanent equalization formula in 1999-00. The other "x" and dashed line labeled the actual constrained distribution is indistinguishable from the equalization line. All of these larger districts are now equalization districts. With only a few small districts still constrained, little revenue is available for redistribution using the permanent equalization formula.



The graph also hints at how equity was achieved over the six-year period. In general, higher revenue districts were frozen with no adjustment for inflation and, in addition, took about a 5% cut in 1993-94. New revenue was dedicated to the equalization formula. In effect, districts were denied funding increases or phased down until the equalization level rose to their level. In addition, some districts are operating on less funding per student than they had in 1991-92.

Finally, note that the equalization line is not flat. This shows that "equity" is not the same dollar amount per student for all districts. Variation occurs because of different teacher experience levels, transportation costs and new facility grants.

RELATED REPORTS

"School Local Property Tax Option: 1999 Legislation," Research Report #5-99

"School Formula Revenue Summary," 1999-00 Distribution Simulation 57 at end-of-session

"K-12 School Finance: State School Fund Distribution," Research Report #2-99

"State School Fund: Permanent Equalization Formula," one page summary

"1997 School Finance Legislation: Funding and Distribution," Research Report #2-98